the books named by us. It was once customary for reviewers to parade the blunders and absurdities of a writer brought to the bar of critical judgment, and to perform something like a vivisection at which the reader was expected to laugh. For this method of dealing with the metrical disease we have little taste; but it may not be superfluous to warn neophytes that they may possibly present to the eyes of the judicious a figure altogether laughable.

Finally, we may be permitted to suggest that verse-making, which is by no means a difficult business, may also be an innocent recreation from which we would by no means debar the young amateur. We have rarely read the preface to a volume of fugitive poetry which did not contain a frank acknowledgment that it was not worth printing. Why, then, print? Are there not secret places in which their bantlings may be hidden? Are there not stoves in which they may be burned? Are there not dealers who go from door to door and purchase waste paper? The young bards assure us, in the constantly quoted language of Coleridge, that poetry has been its own exceeding great reward. Why, then, seek any other? Why, then, put it into the market to be sold for a price? Why these little feeble grasps at immortality? All that there is of any value in the whole *corpus* of all the poets in all languages is worthless compared with sincerity and veracity of life. So much is within the reach of all; and happy are they who secure it, though they may miss praise which is so sweet, and fame which seems to be a prize to the famous, and, in truth, is of value only to those by whose acclamations it is conferred.

CHARLES T. CONGDON.

ART. VII. — THE INSURANCE CRISIS.

LIFE-INSURANCE has sometimes been adduced as a measure of the social progress and condition of a people. Be that as it may, it can safely be said that it has flourished only in an advanced civilization. Depending upon the heaven-born precept to bear each other's burdens, life-insurance affords the most successful application of the scientific doctrine of probabilities to the wants of our better nature. By the application of this principle, compensation

for the misfortunes of an individual, arising from the happening of a contingency to which each person is liable, may be effectually made by spreading the burden over the many, — the share of each one being very small in proportion to the benefit which may be derived. The principle is susceptible of almost infinite application to the practical affairs of life, success depending upon the proper observance of the laws of probability.

Life-insurance has for its scientific basis the laws governing the chances of living or dying, combined with the improvement of money by interest. While nothing is more uncertain than the duration of life in the case of an individual, yet nothing can be predicted with greater certainty than the average duration of life, or the rates of mortality which will prevail among a large number of cases. The census-returns of the different countries, and more particularly the mortuary statistics of life-insurance companies, enable us to base our predictions as to the rates of mortality among a large number of persons, similarly situated as regards habits and conditions of life, with all the precision attending the application of mathematical principles to the laws of nature. The statistics of different companies in this country and Europe have been carefully collated, and the result is, practically, that the rates of mortality among insured lives can safely be predicted within well-defined and narrow limits. This knowledge enables us to determine accurately the yearly cost of insurance for each age, or the sum which is necessary to be paid in order to secure a stated amount in case of death within the year next ensuing. The foundation, or theoretical basis, upon which life-insurance rests is unimpeachable, — it is the application of monetary values to well-ascertained and clearly defined laws of nature. When such application is made to a sufficient number of cases, so that the law of average may have free scope for its operations, and the monetary trust is wisely, honestly, and economically administered, there is nothing in the commercial world which approaches the security of a well-established life-insurance company.

The wonderful growth of life-insurance in the United States within the last twenty years sufficiently demonstrates its necessity in our social economy. The fact that life-insurance affords the best, if not the only, means by which a capital sum may be instantly created upon the death of the head of a family, is generally

understood and clearly appreciated. Our citizens must and will have this protection. We have endeavored to prove that the foundation, or theoretical basis, of life-insurance is impregnable, and is worthy, when properly applied, of our highest confidence. Notwithstanding these facts, we are now passing through a crisis in life-insurance by which the institution is put to the severest strain. Distrust and uncertainty prevail more or less in regard to the whole system, even when administered by the best and strongest companies, where confidence is deserved and should by every means be fostered and encouraged. Three companies, comparatively old and well established, with *nominal* assets exceeding eleven million dollars, have recently failed most disastrously, entailing loss and dismay to thousands of families, and covering with merited disgrace their former managers, who have proved unfaithful to their trusts.

A clear perception of the progress of the business during the past seventeen years, as well as an idea of its present status, may be had by an examination of the following table, compiled from the last Report of the Superintendent of the New York Insurance Department.

TABLE showing the Number and Amount of Policies in force, Gross Assets, Gross Liabilities, and Surplus of Life Insurance Companies transacting Business in the State of New York, from the Year 1859 *to* 1875, *both inclusive.*

YEAR.	Number of Companies.	Number of Policies in force.	Amount of Policies in force.	Gross Assets.	Gross Liabilities, except Capital.	Surplus as regards Policy-Holders.
1859	14	49,608	$141,497,977.82	$20,536,084.58	$15,464,936.44	$5,071,148.14
1860	17	56,046	163.703,455.31	24,115,686.85	17,159,873.46	6,955,813.39
1861	17	57,202	164,256,052.44	26 670 397.04	18,278,402.40	8,391,994.64
1862	18	65,252	183,962,577.43	30,123,331.75	23,791,458 70	6,331,873.05
1863	22	98,095	267,658,677.22	37,838,190.10	28,665,153.70	9,173,036.40
1864	27	146,729	395,703,054.77	49,027,297.40	34,718,230.66	14,309,066.74
1865	30	209,392	580,882,253.46	64,232,123.24	46,341,499.26	17,890,623 98
1866	39	305,390	865,105,877.24	91,587,027.97	65 588,522.76	25,998,505.21
1867	43	401,140	1,161,729,776.27	125,548,951.40	88,597,422.36	36,951,529.04
1868	55	537,594	1,528,984,685.32	175,262,329.71	135,806,958.19	39,455,371.52
1869	69	656,572	1,836,617,818.97	227,767,025 57	180,313,971.36	47,453,054.21
1870	71	747,807	2,023,884 955.00	269,520,440.76	221,032,146.22	48,488,294.54
1871	68	785,360	2,101,461,894.00	302,558,199.23	254,551,781.19	48,006,418.04
1872	59	804,444	2,114 742,591.00	335,168,542 70	288,327,106.78	46,841,435.92
1873	56	817,081	2,086,027,178.00	360,140.684.49	311,550,927 62	48,589,756.87
1874	50	799,534	1,997,236,230.00	387,281,896.81	328,392,551.70	58.889,345 11
1875	45	774,625	1,922,043,146 00	403,142,981.58	342,330,952.86	60,812,028.72

From the foregoing table we observe that the life-insurance companies permitted to do business in the State of New York

were credited, at the close of the year 1875, with assets amounting to no less than $403,000,000, with insurances outstanding amounting to nearly $2,000,000,000 upon the lives of three quarters of a million persons. These aggregates are startling and difficult to grasp. Some reflections, however, are at once forced upon us in regard to these vast accumulations: What are they? To whom do they belong? Are they necessary in order to secure the protection sought in the event of the death of the bread-winner? Have these funds been honestly, safely, and economically managed or invested? What rights have the policy-holders in these vast accumulations? These are suggestive queries. Life-insurance has been purchased, hitherto, almost without exception, by the payment of equal, uniform, or commuted yearly premiums extending over the whole duration of life or for a stated number of years. Since the risk of dying and consequently the cost of insurance usually increases with the age of the person whose life is exposed to the risk of mortality, it follows that any uniform or commuted yearly premium must, of necessity, be larger than is required to provide for the insurance or protection during the earlier years of a policy, in order that it may be sufficient to provide for the enhanced cost of insurance during the later years. In other words, every such uniform annual premium provides not only for its equitable share of the death-claims and expenses of management during each separate current year, but it includes also a further sum to be retained and accumulated by the company in order to provide for insurances (or endowment) in the distant future. These last-named fractions of each uniform premium which, as we have seen, are in excess of and are independent of the current yearly provision for death-claims and expenses of management, are simply and solely deposits or payments in advance, for insurances (or endowment) to be furnished in future upon the depositor's own life. These yearly deposits, with interest accumulations thereon, constitute the reserve upon the policy, and in their aggregate comprise the assets of the company. No policy-holder has any right, title, or interest in the reserve of any other policy-holder, each one having his own similar and sufficient sum in the hands of the company. The enormous accumulations of our life-insurance companies, amounting, as we have seen, to over $400,000,000, are then merely the aggregate of individual

deposits, or payments in advance, for benefits to be furnished in the future. These reserves, it should be clearly understood, are what is left from the previous payments of policy-holders after all death-claims and expenses of management in the past have been paid in full. In other words, the company, having been fully compensated for all the work done in the past, holds these reserves as payments in advance, or deposits, on account of work promised to be done in the future.

The complete separation of the deposit portion of each uniform annual premium from the remainder, or insurance portion, of the same, is essential to the proper understanding and treatment of a life insurance contract. The latter is intended to provide for its proportion of the death-claims and expenses of management during the current year, and should in all cases be sufficient for that purpose. If it is not sufficient in any case, the premium should be increased, or a special guaranty-fund should be created, but in no event should the deposit portion be trenched upon to pay any death-claims (except that of the person for whom the deposit was made) or expenses of management. These deposit portions are private accumulations or individual properties, and as such they should be treated. No commission, for instance, should ever be paid for their procurement. No expense of any kind should be incurred for their management and investment which would not be sanctioned in the soundest and most prudently conducted savings-bank or trust-companies. These deposits, or reserves, are intended, it is true, to be left with the company for a long series of years, or until the death of the depositor, but for this very reason every safeguard which by legislative enactment is thrown around the custody and management of other trust-funds under corporate or individual control should in even greater measure attach to the reserves of life-insurance companies. Economy, accountability, and transparent integrity of management are surely not less necessary in the latter than in the former case, where deposits may be withdrawn at pleasure, and during the lifetime of the depositor. In fact, policy-holders have a right to insist that their reserves or accumulated deposits in life-insurance companies shall be managed as economically, invested as securely, and held as accountably, as if they were intrusted (as, in fact, they might be) to the best savings-bank or trust-company.

The neglect on the part of life-insurance managers to separate the deposit portions from the insurance portions of their uniform premiums, by allowing commissions and other expenses upon the whole premium, for instance, has already been productive of great mischief, and is in great part the cause of the distrust and doubt with which the whole system is now regarded by many intelligent men. The disgraceful failures of the Continental, the Security, and the New Jersey Mutual, however, have been mainly caused by unfaithfulness in the management of the trust-funds, — by the investment of these funds for the personal profit of the managers, by accepting bribes or commissions on loans, and, in fact, by practices which would not for a moment be tolerated in any other trustees, private or corporate. Such practices are bringing the whole business of life-insurance into deserved disrepute, and the remedy is by greater publicity on the part of the companies and by the criminal prosecution of the offenders.

Life-insurance more than any other business, depends upon confidence, both present and future. To make it worthy of confidence the system should be freed as far as possible from every defect, so that any head of a family, contracting to pay a certain sum every year during his life, in order that those dependent upon his exertions shall be provided for in case of his death, may have not only security, which is the first consideration, but may feel confident of obtaining a full equivalent for every dollar paid to the company. This brings us to the consideration of the greatest defect in life-insurance, — the liability to forfeiture, and to the confiscation of all the accumulated deposits in case of the omission to pay a stated premium when due. It is a startling fact that, in round numbers, nine policies lapse by forfeiture or surrender, where one is terminated by death; also, that the average duration or lifetime of a policy is about seven years only. In effecting an insurance, how few persons reflect upon the facts that, judging by the past, there is only one chance in ten that the policy will mature by death, while there are nine chances out of ten that it will terminate by forfeiture or surrender. The policy-holder may at some future time be unable or unwilling to pay a stated premium when due; the insurance, highly prized now, may in time be no longer needed or desired; those for whom the payments are now willingly made may be no longer living, or may be pro-

vided for in other ways. Surely there are contingencies other than that of death which ought to be considered by every prudent man, when he effects an insurance on his life, and agrees to pay every year a certain sum of money to a life-insurance company. The way in is easy enough; the way out is not so clear. The way out should in all cases be nominated in the bond. Under the usual form of contract with a life-insurance company, the policy-holder covenants to pay with undeviating punctuality during life, or for a stated number of years, a uniform annual premium, as the consideration for the sum insured, which is promised to be paid at his death, or on his attainment of a stipulated age. The omission to pay any one of these premiums will, by the terms of the contract, work a forfeiture of the insurance, and a confiscation of the reserve or the deposit portions of all previous fragments. Such stringent penalties are not necessary, and would never have been assented to had policy-holders understood their true interests. We have before shown that these reserves are deposits, or payments in advance, for insurance (or endowment) promised to be furnished in the future. If the policy-holder should, by dissolving the contract, relieve the company from the obligation to insure him further or endow him, for which he has paid partly in advance, it would seem only just that a portion at least of such advanced payments should be returned to him. The company should be protected against injury by the possible withdrawal of sound lives, leaving only those whose health has become impaired, but this may be measured by the cost of providing in each case a satisfactory substitute for the person withdrawing, and affords no justification for the wholesale confiscation of trust-funds. The loss to individuals from the forfeiture of their policies has been something fearful in past years, while the gain to the companies has been neutralized in part, at least, by the odium justly attaching to such injustice, and the consequent enhanced cost of procuring new insurances. The injustice of allowing companies to retain and to confiscate trust-moneys received without consideration rendered, is too obvious for valid defence.

In former days the provisions of a mortgage-contract on real estate were rigidly enforced. Failure to pay an interest instalment when due entailed forfeiture, — the realty became at once

the property of the mortgagee without redress, no matter how great the disproportion between the amount of the debt under the contract and the value of the estate. In time appeals were made to the English Court of Chancery. It was ruled that the forfeiture of say two thousand pounds, because a debt of one thousand pounds was not paid punctually on the day when it became due, was unconscionable, and a remedy was furnished by giving the right of appeal. In this country the remedy is found in the Statute Law. The mortgagee, when interest or principal is in default, may recover, by foreclosure and sale, the full amount of principal, interest, and costs of collection; but the remainder, if any, belongs of right to the mortgagor. In the case of a life-insurance contract purchased by uniform annual premiums which is in default by reason of the nonpayment of a stated premium when due, the company should be entitled to full compensation for the cost of the insurance already furnished for an equitable share of the expenses of management, and for the cost of procuring a substitute equally satisfactory as a contributor to death-claims and to the necessary expenses of management; but the remainder, if any, from previous payments belongs of right to the policy-holder, and should be paid over to him. If this is denied, the remedy, it is believed, could be found in any Court of Equity. There is something to be said in favor of allowing this balance or surrender value to be paid in the form of continued insurance; that is to say, the equitable surrender value might be returned in the form of a temporary insurance of the full amount, as under the Massachusetts non-forfeiture law, or in the form of a paid-up policy for a reduced amount. There is no doubt, however, in simple justice, that a fair surrender value, either in cash or in continued insurance, should in every case be given by the company, and should be guaranteed in the policy contract. In support of this position, that the reserve or deposit belongs to the policy-holder, we refer to the terms of the Massachusetts non-forfeiture law, by which it is provided that when any uniform premium is due and unpaid, the policy should not be absolutely forfeited, but eighty per cent of the net reserve shall be used as a single premium by which the insurance for the full amount is continued without further payment for a definite term, which term is in any case ascertainable by an arithmetical calculation.

In connection with this let us refer to the decision of the Supreme Court of the United States, as delivered in October, 1876, by Mr. Justice Bradley in the case of Life-Insurance Companies *v.* Statham *et al.* It is established, by the decision of the highest court in the land, that if a person is prevented by circumstances beyond his control, as in the case of war, for instance, from paying a stipulated premium when due, the insurance is forfeited, but "in such case insured is entitled to the equitable value of the policy arising from the premiums actually paid. This equitable value . . . . may be recovered in an action at law or by a suit in equity." The court also says: "This reserve-fund has grown out of premiums already paid. It belongs in one sense to the assured who has paid them, somewhat as a deposit in a savings-bank is said to belong to the person who has made the deposit. . . . . To forfeit this excess, which fairly belongs to the assured, and is fairly due from the company, and which the latter actually has in its coffers, and to do this for a cause beyond individual control, would be rank injustice." The bearing of all the recent decisions in life-insurance cases, as well as the opinions of the highest authorities on the subject, tends to establish the fact that the reserve on a life-policy is an "excess" over the cost of past insurance, and is a deposit, or payment, in advance for benefits promised to be furnished by the company to the individual depositor in the future. There is no escape from the conviction that this fund is a private accumulation, held in trust for the individual policy-holder, who is entitled, as a matter of right, to the return of an equitable portion thereof, in cash or in further insurance, should the original contract be terminated.

The equitable distribution of the surplus of a life-insurance company, made possible by the "Contribution Plan" introduced in 1863, and since adopted, at least ostensibly, by every mutual life-insurance company in the country, recognizes the fact that the reserve in each case is the policy-holder's own money, and consequently he is entitled to any extra interest which may be earned thereon. So long as life-insurance is purchased by uniform or equal annual premiums, there must be a reserve or excess over the cost of insurance furnished. An equitable surrender value, in cash or in paid-up insurance, should be inserted as a matter of contract for each year, in every policy. No policy should be accepted without this guaranty. Otherwise the deposits or over-

payments will be at the disposal of the company, and may never be recovered by the owner.

But there is no necessity for confining life-insurance to the plan of uniform or level premiums, which necessarily involve large accumulations or payments in advance for insurances which may never be needed, or which the individual may not live to enjoy. The natural and common-sense plan would be to pay each year for the cost of insurance actually furnished during that year, including a suitable margin for expenses, and to guard against adverse contingencies, such as might arise from an epidemic, for instance. In this way the protection of life-insurance could be purchased at a fair price each year by itself, and as long as may be needed or desired. The outlay for a number of years would be far less than by the old plan of uniform premiums, and there would be no necessity for making deposits or payments in advance, and thus contributing to the piling up of such vast accumulations as are now held by life-insurance companies. These accumulations, already the subject of deep concern among thoughtful business men, may be injudiciously managed or insecurely invested, and are placed by the companies entirely beyond the control of the individual owners or depositors. They offer a fearful temptation to designing and unscrupulous men to get and to retain possession of a company, and thus to control and manipulate the trust-funds for their own personal benefit. By this natural or yearly renewable plan of insurance, which has been commended by the highest authorities and experts as being at once simple, safe, and inexpensive, the protection of life-insurance may be secured, each year by itself, and just so long as that protection shall be needed or desired. When it is no longer needed or desired the insured may cease to pay, and in that event he will not be obliged to mourn over confiscated deposits or payments in advance, as unfortunately has been too often the case hitherto, under the old plans of insurance.

In conclusion, the following considerations are suggested as desirable for adoption by the companies, if they would regain that confidence and esteem of the public to which life-insurance as a system is justly entitled. (1.) The insertion in each policy of life-insurance, which is to be purchased by uniform or level premiums, of an equitable surrender value for each and every year of its ex-

istence, to be paid in cash or by continued insurances. (2.) Greater publicity in regard to the character of the investments of the reserves or deposits of policy-holders, with a certification at stated intervals, by competent, disinterested, aud outside auditors or professional experts, as to the facts necessary to form a correct judgment of the financial condition of the institution. And since it is obviously impossible for the State Insurance Departments to examine with sufficient minuteness the securities of every company, the value of professional auditors or accountants for corporations of every description is suggested. The value of the opinions of such experts, who have a professional character at stake, has been demonstrated in England. (3.) Greater accountability on the part of the managers of life-insurance companies as to the character of the investments made by them of the trust-funds. (4.) The adoption of the system of yearly renewable insurances, by which large accumulations are rendered unnecessary, and insurance, apart from deposits, may be obtained. In any event, the time has now arrived when the individual rights in the reserves should be recognized and clearly stated. The distinction should be clearly drawn between moneys paid for insurance and moneys paid for mere accumulation. If this is not done, intelligent men will take the matter into their own hands by selecting an insurance-company for the former and a well-managed savings-bank for the latter, thus blending the best features of the two institutions.

SHEPPARD HOMANS.